

# Transportation Finance Overview

**Matt Burress**  
**House Research Department**  
matt.burress@house.mn

**Andy Lee**  
**House Fiscal Analysis**  
andrew.lee@house.mn

January 12<sup>th</sup> & 14<sup>th</sup>, 2015

## Presentation Contents

2

- 
- Part 1: Highway Finance (Primarily)
    - Basic Structure & Overview
    - Revenue Sources
    - Highway Funds
    - Distribution
    - Bonding
    - Recap & Analysis
  - Part 2: Transit & Other Finance

## Highway Finance

### Basic Structure

---

3

#### Street and highway systems in Minnesota

- The state maintains the Trunk Highway system, including interstates and major highways
- Counties, cities, and townships have jurisdiction over their respective local roads
- Local units of government receive state aid
  - State-aid systems are a portion of local roads
  - County state-aid highway (CSAH) system
  - Municipal state-aid street (MSAS) system

## Highway Finance

### Basic Structure

---

4

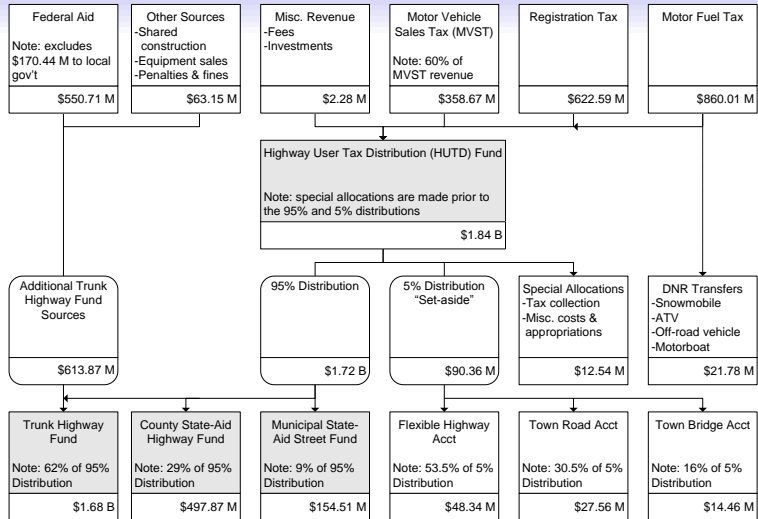
#### Highway system funding

- State funding based on a *constitutional & statutory* framework of dedicated revenues
- Most general fund appropriations for transportation are outside of highways
  - Transit
  - Rail
  - Dept. of Public Safety
- Local roads are funded through federal aid, state assistance, and property tax revenue

# Highway Finance

## Sources and Distribution Overview

5



# Highway Finance

## Revenue Sources

6

Three main sources of highway revenue

- Motor fuels tax
- Registration tax (tab fees)
- Motor vehicle sales tax

## Highway Finance Revenue Sources

7

### Motor fuels tax

- Total rate for gasoline and diesel is 28.5 cents per gallon
  - 25 cents, plus
  - 3.5 cents debt service surcharge (variable)
- Other types of fuel are taxed at a rate proportional to their energy content
- About 2.5% of revenues are attributed to non-highway uses (e.g., snowmobiles, ATVs)
- 100% constitutional dedication to roads

## Highway Finance Revenue Sources

8

### Motor fuels tax (cont.)

- 2008 legislation increased the tax, phased in over FY 2008-13

Fiscal Year	Rate (cents)
1988-07	20
2008-09	20 – 20.5 (various)
2010	27.1
2011	27.5
2012	28
2013+	28.5

## Highway Finance Revenue Sources

---

9

### Registration tax (tab fees)

- Annual tax on vehicles registered in MN
- Tax rate for passenger autos is \$10 plus 1.25% of the manufacturer's base price, which is depreciated yearly based on a statutory schedule
- The minimum tax is \$35
- Trucks are taxed based on weight and age
- 100% constitutional dedication to roads

## Highway Finance Revenue Sources

---

10

### Motor vehicle sales tax (MVST)

- Rate of 6.5% tax on the sale of new and used vehicles, in lieu of general sales tax
- Constitutional amendment passed in 2006
  - Provides 100% dedication of revenues to transportation
  - Phased in over fiscal years 2008-12
- Constitutional limitations
  - “Not more than 60%” for highways
  - “Not less than 40%” for transit

# Highway Finance

## Revenue Sources

### Motor vehicle sales tax (cont.)

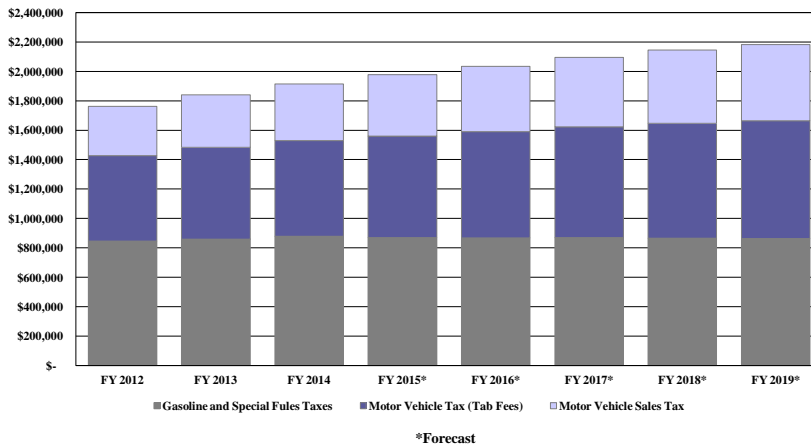
- Allocation determined by statute
- Allocation formula:

Recipient	%
Highways (HUTD)	60%
Twin Cities metropolitan area transit	36%
Greater Minnesota transit	4%

# Highway Finance

## Revenue Sources

### Major Transportation Tax Revenue FY 2012-19, with Forecasts



## Highway Finance Revenue Sources

13

### Motor vehicle lease sales tax

- Rate of 6.875% on passenger vehicle leases
- Partially allocated to transportation
- Some recent allocation changes
- Statutory allocation formula (FY 2015+):

Recipient	Share
General Fund	First \$32 million
Some Twin Cities metropolitan area counties	50% of remaining
Greater Minnesota transit	50% of remaining

## Highway Finance Revenue Sources

14

### Other revenue sources

- General fund appropriations
- Federal aid
- Trunk highway system
  - Local construction work
  - Permits & other user fees
  - Penalties & fines
  - Sale of property, goods, & services

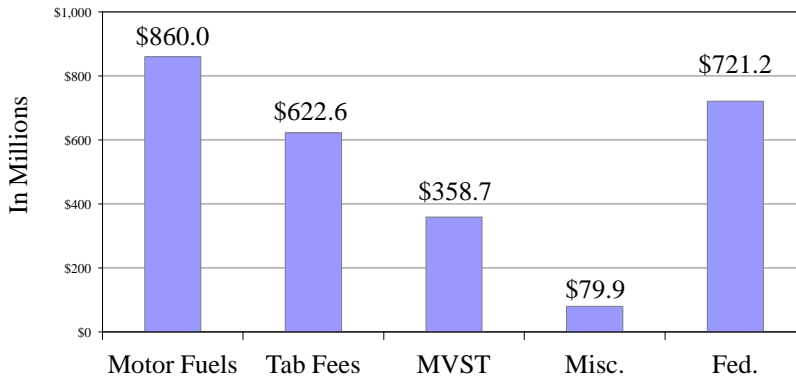
# Highway Finance

## Revenue Sources

15

### State and Federal Highway Funding

FY 2013 (\$2.64 billion)



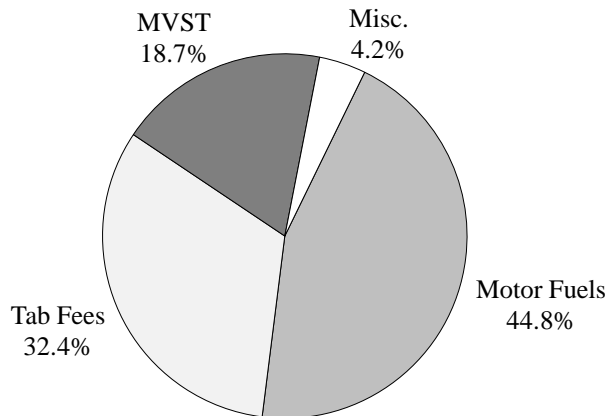
# Highway Finance

## Revenue Sources

16

### Distribution of State Highway Funding

FY 2013 (\$1.92 billion)





## Highway Finance

### Highway Funds

---

17

#### Highway User Tax Distribution (HUTD) fund

- Established under the MN Constitution
- Contains dedicated highway revenue
  - Registration tax
  - Motor fuels tax
  - Motor vehicle sales tax
- Distributes funds to state and local highways

## Highway Finance

### Highway Funds

---

18

#### Three core highway system funds

- All established under the MN Constitution
- Trunk Highway fund: for the state system of trunk highways and interstates
- County State-Aid Highway (CSAH) fund: for county systems, and small cities
- Municipal State-Aid Street (MSAS) fund: for city systems

## Highway Finance Distribution

19

### Highway revenue distribution

- Mix of constitutional and statutory
- Revenue in HUTD fund is distributed to the three core highway system funds
- Distribution is split into two parts (after special allocations)
  - 95% distribution
  - 5% distribution “set-aside”
  - Minn. Const. art. XIV, § 5

## Highway Finance Distribution

20

### 95% distribution from HUTD

- Into funds for state and local roads
- Constitutional formula:

<b>Fund</b>	<b>%</b>
Trunk Highway fund	62%
County State-Aid Highway (CSAH) fund	29%
Municipal State-Aid Street (MSAS) fund	9%

## Highway Finance Distribution

21

### 5% set-aside from HUTD

- Set-aside can be allocated to Trunk Highway fund, CSAH, and/or MSAS
- Allocation formula can only be changed every 6 years (last changed in 2009)
- Statutory formula:

Account	%
Town bridge account	16%
Town road account	30.5%
Flexible highway account	53.5%

## Highway Finance Distribution

22

### 5% set-aside from HUTD (cont.)

- Flexible highway account funds
  - Twin Cities metropolitan area counties
  - Turnbacks: fixing up and turning over trunk highways to local units of government
  - Local roads (safety improvements, routes of regional significance)
- Turnbacks are based on agreement between MnDOT and local units of government

## Highway Finance Distribution

23

### Aid to local units of government

- CSAH fund, MSAS fund
- Funds are administered and distributed to counties and cities by MnDOT
- Distributions are based on statutory formulas
- Most formula components are proportional
- Primarily direct aid, with some set-asides (e.g., disaster, research)

## Highway Finance Distribution

24

### County state-aid allocation

- Two separate statutory formulas for direct aid
  - 1) Excess sum formula (“new” revenue from MVST dedication & 2008 legislative changes in transportation funding):

Formula Component	%
Vehicle registration	40%
Constructions needs	60%

# Highway Finance Distribution

25

## County state-aid allocation (cont.)

- 2) Apportionment sum formula (remainder of funds):

Formula Component	%
Equal	10%
Vehicle registration	10%
Lane miles	30%
Constructions needs	50%

# Highway Finance Distribution

26

## Municipal state-aid allocation

- System is in essence constitutionally restricted to cities having population of at least 5,000
- Statutory formula:

Formula Component	%
Population	50%
Constructions needs	50%

## Transportation Finance Bonding

---

27

### Transportation bonding overview

- Form of debt financing for capital projects
- Bonds are authorized and proceeds appropriated through enacted legislation
- Trunk highway bonds vs. other general obligation (G.O.) bonds
  - Trunk highway bonds are constitutionally separate
  - Trunk highway bonds can *only* be used for the trunk highway system; other G.O. bonds can *not* be used for trunk highways

## Transportation Finance Bonding

---

28

### Transportation bonding overview (cont.)

- Trunk highway bonds
  - Recent purposes: state road & bridges, new MnDOT programs, specific MnDOT facilities
  - Transportation and capital investment bills
- G.O. bonds for transportation
  - Mixture of programs (Greater MN transit facilities, local bridges, local road improvement) and specific projects (airports, Central Corridor, railways)
  - Capital investment bills

# Transportation Finance Bonding

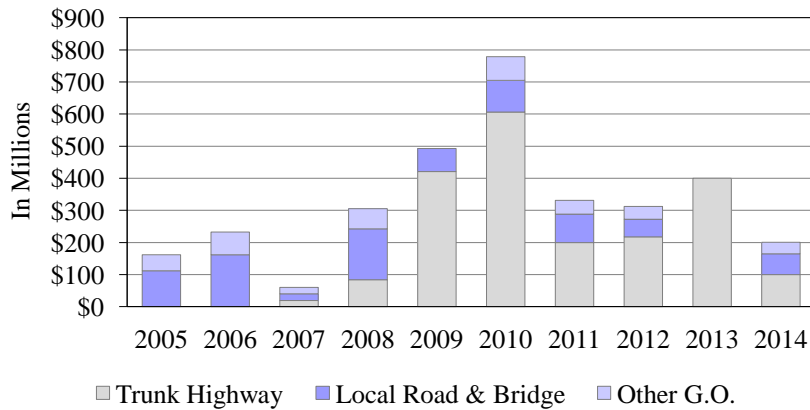
## Authorization vs. issuance

- Authorized bonding is available for sale
- Issuances take place based on projected cash flow needs
- Currently \$734 million in Trunk Highway bonds is authorized and unissued

# Transportation Finance Bonding

## Transportation Bonding History

2005-14



## Transportation Finance Recap & Analysis

---

31

### Key finance characteristics

- Finance has a constitutional framework
- Core highway revenue comes from three sources (MVST, gas tax, & registration tax)
- Core revenue is related to highway activities
- Highway funding goes into three funds – for the state, counties, and cities
- Much of the allocation of funds is based on formulas
  - Both constitutional and statutory

## Transportation Finance Recap & Analysis

---

32

### Key finance characteristics (cont.)

- Highway funding is mostly outside of general fund dollars
- Trunk highway bonds are constitutionally distinct from other G.O. bonding
- Bonding for various transportation projects and programs



## Transportation Finance

33

### Recap & Analysis

---

#### Elements of limitation in policymaking

- Main funding sources are constitutionally dedicated to transportation purposes
  - Highways only: gas tax, registration tax
  - Highways & transit only, with limits: MVST
- Constitutional allocation in main highway funding distribution to state and local roads
- The most flexible funding sources are a relatively small share of funding
  - General fund, motor vehicle lease sales tax

## Part 1 Conclusion

34

---

Questions?

# Presentation Contents

35

- Part 1: Highway Finance (Primarily)
- Part 2: Transit & Other Finance
  - Transit Finance
  - Other Transportation Finance
  - Budgets
  - Recent History

# Transit Finance Basic Structure

36

## Transit provided by local units of government

- Twin Cities metro area
  - Metropolitan Council (Metro Transit, contracted)
  - Suburban providers (opt-outs)
  - Independent providers
- Variety of transit systems and service in Greater Minnesota
  - City-only and county-only service
  - Service across multiple counties

## Transit Finance

### Basic Structure

---

37

#### MnDOT and Metropolitan Council

- Transit policy and planning
- Federal funds administration
- Technical and management assistance
- Metropolitan Council
  - Twin Cities metro area policies & planning
  - Transit operator (& contractor)
- MnDOT
  - Assistance to Greater MN

## Transit Finance

### Funding Sources

---

38

#### Sources of Greater Minnesota transit funding

- Federal aid
- State sources
  - General fund
  - Motor vehicle lease sales tax
  - MVST allocation (4% of revenues)
  - General obligation bonds
- Local effort (property, sales taxes)
- “Farebox recovery” – revenue from fares

## Transit Finance Funding Sources

39

### Sources of Twin Cities metro area transit funding: operating & bus/facility replacement

- **Federal aid** (Formula Grants, CMAQ)
- **State sources**
  - **General fund** (Bus system operations & ½ of transitway operations)
  - **MVST allocation** (36% of revenues)
- **“Farebox recovery”** – revenue from fares
- **Property Taxes** (Regional Transit Capital Levy)
  - Metropolitan Council levy authority for bonds

## Transit Finance Funding Sources

40

### Sources of Twin Cities metro area transit funding: capital projects

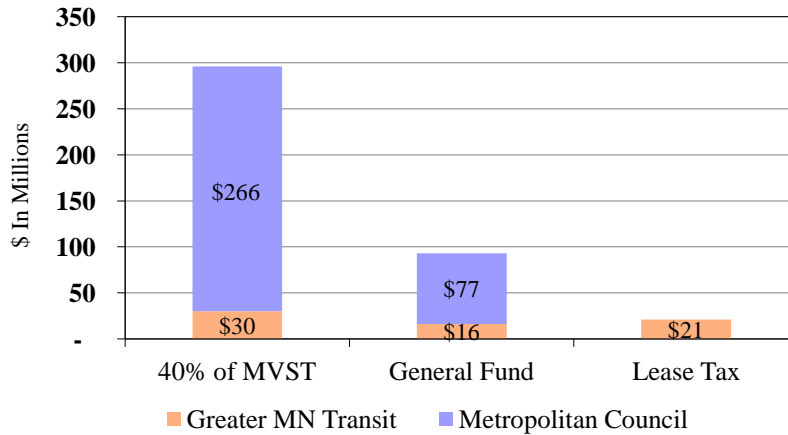
- **0.25% transit sales tax**
  - Authorized local option sales tax
  - For transitway capital and ½ of operating costs
  - Administered by county joint powers board: Counties Transit Improvement Board (CTIB)
- **Federal Aid** (New Starts, Small Starts, CMAQ)
- **Local Property Tax levy**, County Regional Rail Authorities
- **State General Fund, General Obligation Bonding**

# Transit Finance

## Funding Sources

41

### State Transit Funding FY 2016 Base (In Millions)



# Other Transportation Finance

## Multimodal

42

### Aeronautics

- State airports fund for aeronautics services and aid to airports
- Three core revenue sources, modified in 2013
  - Aviation fuel tax: different rates based on type and amount of fuel
  - Aircraft registration tax: based on original value
  - Airline flight property tax: on commercial aircraft equipment, rate based on state appropriations

## Other Transportation Finance Multimodal

---

43

### Other modes

- Ports, freight rail, passenger rail, pipeline safety, commercial motor vehicles
- Sources
  - General fund appropriations
  - General obligation bonds
  - User fees / assessments
  - Federal aid

## Transportation Finance Budgets

---

44

### Committee budgetary jurisdiction

- MnDOT
  - Trunk highway system construction & maintenance
  - Trunk highway fund, some general fund (transit, passenger rail, freight), state airports fund (aeronautics)
- Met Council
  - Transit system portion of the agency
  - General fund, MVST

## Transportation Finance Budgets

---

45

### Committee budgetary jurisdiction (cont.)

- Department of Public Safety
  - Some divisions of the agency: State Patrol, Driver and Vehicle Services (DVS), Traffic Safety, Pipeline Safety
  - Trunk highway fund (State Patrol), general fund (administrative), special revenue (DVS)
  - DVS: fee-based structure

## Transportation Finance Budgets

---

46

### Committee budgetary jurisdiction (cont.)

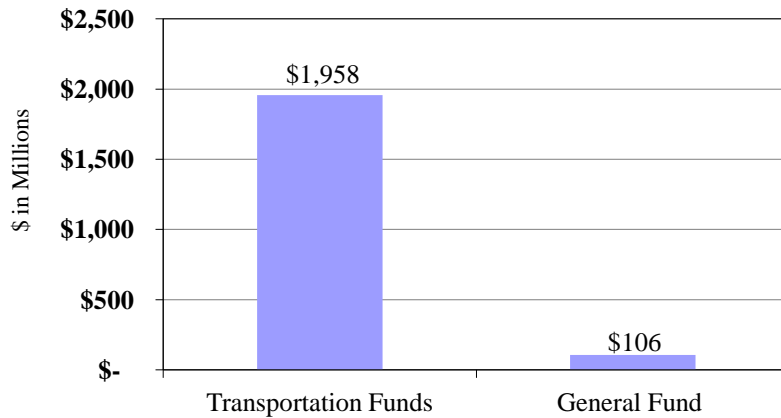
- State non-general fund oversight: \$1.9 billion (FY 2016 base)
- General fund oversight: \$106 million (FY 2016 base)

# Transportation Finance Budgets

47

## Transportation Finance Committee Jurisdiction

FY 2016 Base (In Millions; excludes bonds, federal aid)



# Transportation Finance Recent History

48

## Laws 2008, Ch. 152

- Most recent major transportation finance legislation
- Key funding changes
  - Motor fuels tax increase phase-in
  - Registration tax modifications (eliminate caps, accelerate depreciation, hold harmless provision)
  - Motor vehicle lease sales tax allocation (local highways, transit)
  - Local option sales taxes (CTIB, Greater MN)



## Transportation Finance

### Recent History

---

49

#### Laws 2008, Ch. 152 (cont.)

- Trunk highway bonding authorizations
  - \$1.8 billion over FY 2009-2016 (as amended)
- Trunk highway bridge improvement program
- CSAH fund allocation formula (“new” revenue)
- Flexible highway account allocation
  - Eliminate trunk highway funding
  - Allocation to local highways
  - Other new uses

## Part 2 Conclusion

---

50

Questions?